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STATUS OF CONTRACT WITH

301730 1949

Present Contract:

Contract dated January 27, 1948 in the total sum of \$100,000 for the delivery of six scanners, six recorders and six printers.

Contractor's Proposal for Amendment:

Contractor's proposal for amendment dated June 1, 1949 requested converting the contract to cost-plus-fixed-fee contract and in the total approximate sum of \$185,413, to include the delivery of six scanners and six recorders only, or an increase of \$85,413. Under the contractor's proposal six printers were to be excluded.

Proposal by OCD:

OCD proposes an amendment to the present contract to call for a total of six scanners and ~~six~~<sup>15</sup> recorders and to exclude the printers. The contractor has proposed to furnish this equipment at an additional sum of \$117,000 or a total contract price of \$217,000.

Present Status of Delivery:

Contractor has delivered to CIA one ~~scanner~~<sup>SCANNER</sup> and one recorder.

Financial Status:

The Contractor has expended approximately \$90,000 in connection with this contract and has been paid approximately \$60,000 by CIA.

The following are general points in favor and against affording the contractor relief under his present contract as proposed by OCD:

FOR

1. Technical knowledge and ability of the contractor to produce the equipment required.

AGAINST

1. The contractor is technically in default under a Signal Corps contract although has not been so declared by the Army. Contract is in amount of \$250,000 and contractor has requested relief in the total sum of \$100,000 which apparently will not be granted. Sooner or later the contractor will be declared in default and question of excess cost would later be determined and may involve litigation.

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2. Less expensive production provided overhead rate of contractor can be reduced.

3. Faster production.

4. Royalty-free license to be granted to the Government by the contractor in approximately ten patents now being processed.

5. Department of the Navy completely satisfied with production, technical ability and financial position of the contractor in connection with a classified Navy contract, the amount of which is unknown.

6. RFC will continue terms of present loan in the approximate amount of \$54,000.

7. Difficulty in obtaining another contractor for the production of this equipment which may be more expensive than that proposed by OCD.

2. The contractor is ~~in default~~ in default under a Department of Air contract (Wright Field) in the total sum of \$15,000 under which the contractor has already expended \$70,000 and is unable to deliver. It appears that a no-cost settlement with the Air Force may be possible but no recovery of the sum of \$56,000 in excess of the contract price by the contractor appears possible.

3. Limited financial ability of contractor to finance for the production.

4. Accounts payable by the contractor in excess of \$45,000 as of 30 April which have not been paid as of May 31. Possible action by creditors and appointment of receiver.

5. Relief of defaulting contractor and review by the General Accounting Office.

6. Unusually high rate of overhead for company of this size which has been estimated by the contractor at 248%. This figure subject to be reduced with increase in Government and commercial business.

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Action to be taken if contractor is declared in default:

1. Notification to the contractor.
2. Notification to the General Accounting Office and Audit Agency by GAO of all accounts payable, pending, in favor of the contractor in order to effect setoff of excess costs.
3. Purchase of equipment in the open market charging excess cost to contractor's account.

Possible result of default action by CIA:

Bankruptcy and sale of contractor's assets or appointment of receiver to operate business.

Action to be taken if relief requested is granted to contractor:

1. Obtain assurances from Signal Corps and Air Force that default action will not be taken by them until completion of CIA contract.
2. Review of contractor's overhead rate to reduce cost under the contract.
3. Closer technical supervision by CIA.
4. Establishment of special banking account in order to expedite payments to contractor and close control of use of CIA funds.
5. Settling charges of approximately \$20,000 representing exceptions taken by the Army Audit Agency.

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